

MISSOURI STATE LOTTERY COMMISSION  
(A Component Unit of the State of Missouri)

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COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEARS ENDED JUNE 30, 2000 AND 1999

with

INDEPENDENT AUDITORS' REPORT

MISSOURI STATE LOTTERY COMMISSION  
(A Component Unit of the State of Missouri)

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Years Ended June 30, 2000 and 1999

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## INTRODUCTORY SECTION



# Missouri Lottery

1823 Southridge Drive • P.O. Box 1603 • Jefferson City, Missouri 65102-1603 • (573) 751-4050  
www.molottery.state.mo.us • FAX (573) 751-5188 and (573) 751-5215

November 2, 2000

To: William E. James, Chairman Missouri State Lottery Commission  
Robert J. Mayfield, Member  
Kenneth R. Hensley, Member  
Barbara H. Pickering, Member  
Sue Carrol Terry, Member  
James R. Scroggins, Executive Director

## INTRODUCTION

We are pleased to transmit this Comprehensive Annual Financial Report (CAFR) of the Missouri State Lottery Commission (MSLC) for the year ended June 30, 2000. In this report we have included an introduction, our financial statements including the independent auditor's opinion on the financial statements, and statistical data relevant to the operations of the MSLC. The MSLC is responsible for the accuracy and fairness of this presentation. The MSLC is included as a component unit of the State of Missouri. This report presents the activity of the MSLC as a single enterprise fund and does not include information related to any other state agency or fund. It is our hope that you find this report informative as to the success of the MSLC as well as the challenges and opportunities that face the MSLC in the future.

The Introductory Section of this report includes this transmittal letter and an organization chart including principal officials. The Financial Section includes the independent auditor's report and the comparative financial statements and accompanying notes. The Statistical Section contains other selected data relevant to the operations of the MSLC.

The MSLC was created by the passage of a constitutional amendment on November 6, 1984 by the citizens of the State of Missouri. Ticket sales began January 20, 1986, with the introduction of a single scratch-off game, Jackpot 86. This represented the first legislatively authorized lottery tickets sold in Missouri since the New Franklin Railroad Lottery (later known as the Missouri State Lottery) was closed down in 1877.

The MSLC is a Type III division assigned to the Missouri Department of Revenue as defined in Section 313.210 of the Missouri Revised Statutes. The Department of Revenue has no control, supervision, or authority over the actions or decisions of the MSLC. The MSLC consists of five members appointed by the Governor with the advice and consent of the Senate.

## ECONOMIC OUTLOOK

The fundamental economic indicators for the State of Missouri remain positive. However, personal income in Missouri has fallen below the national average for the third straight year. In fact percent changes in personal income are projected to fall below that of all surrounding states in 2001 per the Missouri Department of Economic Development. The growth of the MSLC has slowed marginally in fiscal year 2000 as well. Maturing lottery games and competition from riverboat casinos make increases in ticket sales more challenging each year. Flatter lottery sales curves are typical all across the country. Sales of large top prize games such as Powerball

fluctuate significantly based on the growth of the top prize making the timing of sales increases difficult to predict.

The MSLC will continue to focus on finding new games with appeal to both existing lottery players and new players. In fiscal 2001, our marketing efforts will focus on upgrades to our daily on-line games while continuing to maintain modest growth in other on-line games. For Scratch games we will continue to increase the number of higher price point games and expand placement of vending machines with more facings to increase variety and visibility of these products in the marketplace.

## **LOTTERY PRODUCTS**

The MSLC currently offers the following games for players to choose from:

Scratch Games are provided through a vendor who provides game design consultation, printing, and electronic validation information for prize payment. These games are played by scratching a latex coating to reveal the play area of the ticket. There are different ways to win including matching certain symbols, adding up to a specified total or otherwise satisfying the requirements listed on the ticket. These play styles are combined with a variety of game themes and price points. If the specified condition occurs the ticket is an instant winner. These games were the first offered by the MSLC and continue to represent over 50% of our total ticket sales.

On-line games are provided by a vendor who maintains terminals and a central processing system operated on a lottery owned telephone network. These games are played by purchasing a ticket from a retailer through an on-line (computerized) terminal. These tickets are then held until a drawing is conducted by the MSLC and witnessed by independent auditors to determine the winning numbers. Drawings are conducted daily or twice a week dependent upon the game. Pick 3, Pick 4, and Show Me 5 are drawn daily and are distinguished by their play styles, prize amounts, and odds of winning. Missouri Lotto is drawn twice a week and offers a guaranteed minimum top prize of \$1 million paid over 25 years. The top prize grows for each draw that it is not won. Powerball is a lotto style game with a guaranteed minimum top prize of \$10 million. The Powerball game is offered in conjunction with 20 other states through the Multi-State Lottery Association. Profit for all on-line games sold in Missouri stay in Missouri.

Pull-Tabs are printed and provided by a vendor and are played by opening tabs on one side of the ticket to reveal rows of symbols under each tab. Prizes are won by matching symbols indicated on the front of the ticket. All pull-tab prizes are paid by the retailer who sold the ticket.

## **ACCOMPLISHMENTS AND INITIATIVES**

\*Total sales for fiscal 2000 were \$507,845,586, the second highest annual sales in the history of the MSLC.

\*Profits for fiscal 2000 were \$154,018,327, which also represented our second best year ever.

\*Integrated scratch and on-line accounts receivable system

\*Introduced our first \$5 Scratch game "Season's Greetings"

\*Introduced our first \$2 on-line game "Triple Play"

\*Remodeled and added functionality to the entire headquarters building

\*Highest Missouri Lotto jackpot ever \$19 million

\*Highest Missouri Lotto weekly sales since September 1989 \$3.164 million

## **FINANCIAL INFORMATION**

### **Budgetary Controls:**

The MSLC annually submits a request for appropriation through the budgetary process of the State of Missouri. All expenditures of the MSLC are subject to this appropriation process. The MSLC does use interest earnings at the Multi-State Lottery Association to offset certain administrative and promotional expenses.

Expenses associated with the operation of the MSLC are submitted for payment through Missouri Office of Administration, Division of Accounting. The MSLC maintains its own signature authority for payment of prizes through an imprest checking account. The MSLC has its own purchasing authority and has adopted the same rules and procedures as that of the Office of Administration, Division of Purchasing and Materials Management.

### **Debt Administration:**

The MSLC presents liabilities for its multi-year grand prize winners on the balance as Amounts held on behalf of grand prize winners, restricted, current and long-term. The MSLC holds US Treasury Strips in the name of prizewinners for the purpose of funding these payments. These investments are presented as restricted investments on the balance sheet. The current portion of both the investment and liability mature within the next fiscal year. The MSLC does own some insurance annuities to fund prizes won prior to August 1990.

### **Cash Management:**

The MSLC Enterprise Fund is a portion of the state funds maintained by the Office of State Treasurer and as such are pooled in short term investments until needed.

### **Risk Management:**

The MSLC major assets including buildings, data processing and other major equipment are insured by a third party carrier maintained by the Office of Risk Management. The MSLC also maintains business interruption insurance. Liability indemnity for operation of the MSLC is managed through the State's Legal Defense Fund of the Office of Attorney General.

## **INTERNAL CONTROL ENVIRONMENT**

Management of the MSLC is responsible for establishing and maintaining an internal control structure designed to ensure that assets are protected from loss, theft, or misappropriation. The internal control system also ensures that the accounting system provides accurate and timely financial information. The structure does not provide a guarantee but rather reasonable assurance that these objectives are met.

To enhance controls over accounting procedures, the Lottery has segregated appropriate functions where feasible, and added additional administrative review of areas not clearly segregated to ensure compliance with established control policies.

Section 313.315 of the Missouri Revised Statutes requires the State Auditor to conduct a biennial audit of all accounts and transactions of the MSLC, and such other special audits as it may deem necessary. The MSLC is also required to employ an independent firm of accountants to conduct an annual audit of all accounts and transactions of the lottery. This audit includes a review of internal controls as they relate to the expression of an opinion on the financial statements.

In addition, the MSLC has from time to time employed the services of an independent firm to conduct reviews of our security procedures for data processing and controls with on-line game suppliers.

## FUTURE PROJECTS

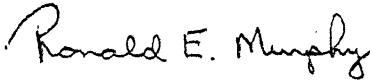
Major initiatives in Fiscal Year 2001 and beyond include:

- \*Reinvest in our Web page for electronic business applications. This is a large project that will potentially touch all aspects of our current operation.
- \*Deploy new scratch vending machines with 15 facings or more
- \*Award a new Scratch game supplier contract

## ACKNOWLEDGEMENTS

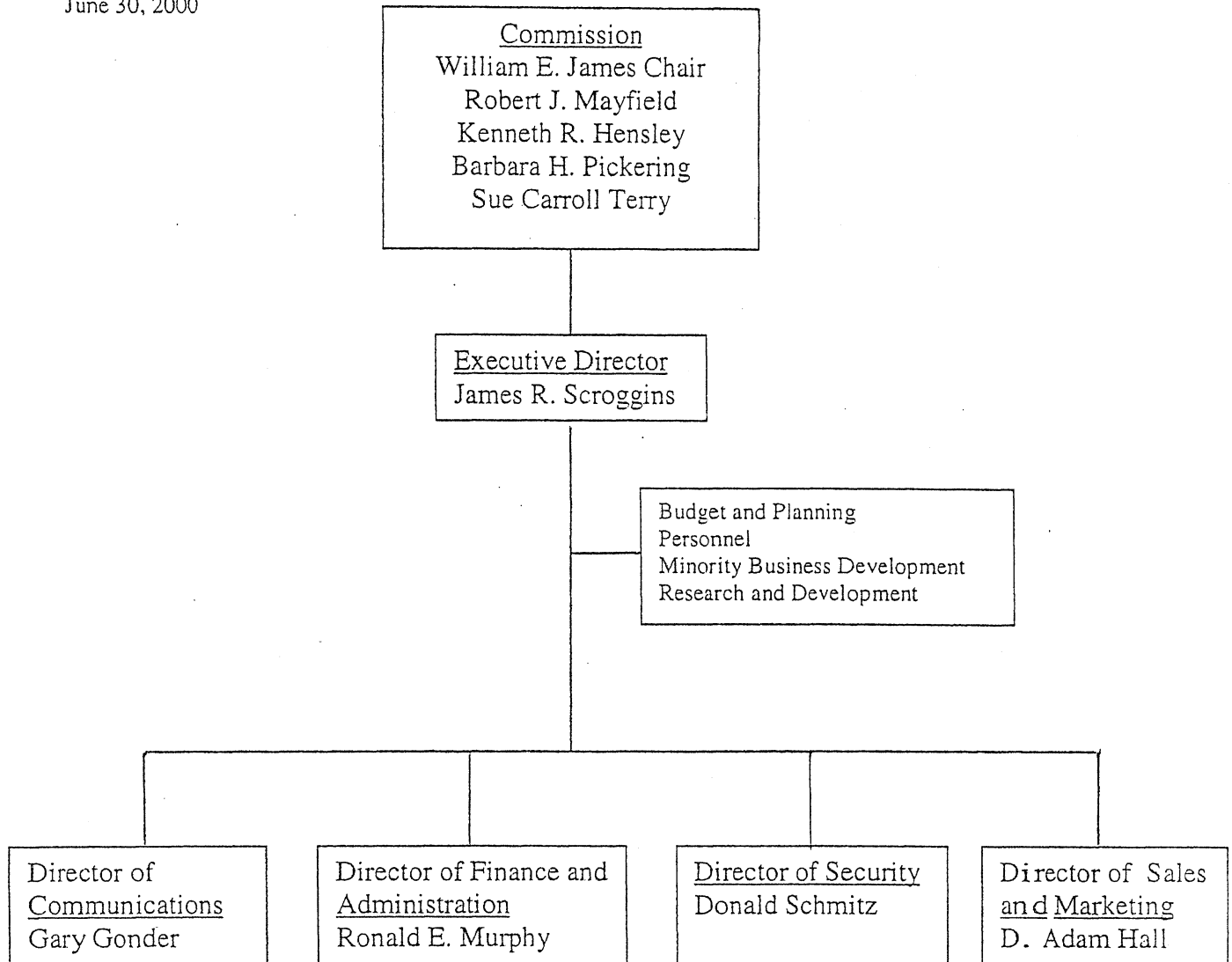
Preparation of this report could not have been accomplished without the entire Accounting staff, especially Larry Jansen CPA CGFM Controller, and Cathy Long CGFM Chief Financial Accountant. This CAFR represents our ongoing commitment to provide financial systems and information in conformance with the highest standards of accountability.

Respectfully submitted,



Ronald E. Murphy, MBA CGFM Director of Finance and Administration  
Missouri State Lottery Commission

Missouri State Lottery Commission  
Principal Officials and Organization Chart  
June 30, 2000





## FINANCIAL SECTION

## INDEPENDENT AUDITORS' REPORT

To the Missouri State Lottery Commission:

We have audited the accompanying balance sheets of the Missouri State Lottery Commission (a component unit of the State of Missouri) as of June 30, 2000 and 1999, and the related statements of revenues, expenses and changes in retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Lottery's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Missouri State Lottery Commission as of June 30, 2000 and 1999, and the results of operations and changes in retained earnings and cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2000, on our consideration of the Lottery's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

The statistical data as listed in the table of contents is presented for the purposes of additional analysis and is not a required part of the financial statements of the Missouri State Lottery Commission. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

*Berberich Trahan & Co., P.A.*

*Cochran, Head & Co., P.C.*

October 6, 2000

MISSOURI STATE LOTTERY COMMISSION

(A Component Unit of the State of Missouri)

BALANCE SHEETS AS OF JUNE 30, 2000 AND 1999

	<u>2000</u>	<u>1999</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 25,539,324	\$ 23,812,543
Restricted investments held for grand prize winners, current portion	11,917,936	11,756,795
Accounts receivable	19,752,722	28,647,740
Ticket inventories	23,880	226,669
Prepaid equipment	<u>167,188</u>	<u>0</u>
Total current assets	57,401,050	64,443,747
RESTRICTED INVESTMENTS HELD FOR GRAND PRIZE WINNERS	92,928,867	95,764,580
PROPERTY AND EQUIPMENT, net	<u>8,759,614</u>	<u>8,657,852</u>
Total assets	<u>\$ 159,089,531</u>	<u>\$ 168,866,179</u>
<u>LIABILITIES AND RETAINED EARNINGS</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 4,056,428	\$ 4,905,730
Due to Lottery Proceeds Fund	8,786,986	10,784,696
Accrued prize liabilities	31,707,450	35,863,459
Amounts held on behalf of grand prize winners, restricted, current portion	12,293,000	12,121,000
Other accrued liabilities	1,686,213	1,662,832
Capital lease obligation	<u>338,163</u>	<u>318,518</u>
Total current liabilities	<u>58,868,240</u>	<u>65,656,235</u>
LONG-TERM LIABILITIES:		
Capital lease obligation	29,105	367,267
Due to Lottery Proceeds Fund - Deferred	7,638,383	7,442,302
Amounts held on behalf of grand prize winners, restricted	<u>92,553,803</u>	<u>95,400,375</u>
Total long-term liabilities	<u>100,221,291</u>	<u>103,209,944</u>
Total liabilities	159,089,531	168,866,179
RETAINED EARNINGS	<u>0</u>	<u>0</u>
Total liabilities and retained earnings	<u>\$ 159,089,531</u>	<u>\$ 168,866,179</u>

The accompanying notes are an integral part of these financial statements.

MISSOURI STATE LOTTERY COMMISSION  
(A Component Unit of the State of Missouri)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS

FOR THE YEARS ENDED JUNE 30, 2000 AND 1999

	<u>2000</u>	<u>1999</u>
OPERATING REVENUES:		
On-line ticket sales	\$ 212,437,187	\$ 235,500,040
Instant ticket sales	266,708,105	248,510,434
Pull-tab ticket sales	28,700,294	29,240,982
Total sales	507,845,586	513,251,456
Other	87,776	109,142
Total operating revenues	<u>507,933,362</u>	<u>513,360,598</u>
OPERATING EXPENSES:		
On-line prize expense	106,430,731	118,475,878
Instant prize expense	155,979,837	145,327,340
Pull-tab prize expense	18,095,630	18,503,234
On-line retailer commissions and incentives	12,269,424	13,409,472
Instant retailer commissions and incentives	17,762,279	16,466,399
Pull-tab retailer commissions and incentives	2,356,826	2,402,514
Cost of tickets sold	12,580,313	13,195,977
Advertising and promotions	9,951,135	10,175,179
Wages and benefits	7,908,959	7,518,932
Other general and administrative	10,136,369	10,343,506
Depreciation and amortization	2,123,182	1,986,455
Total operating expenses	<u>355,594,685</u>	<u>357,804,886</u>
Operating income	<u>152,338,677</u>	<u>155,555,712</u>
NONOPERATING REVENUES:		
Interest income	1,563,766	1,518,063
Gain on disposal of fixed assets	115,884	381,513
Liquidated damages	0	1,107,200
Total nonoperating revenues	<u>1,679,650</u>	<u>3,006,776</u>
Income before operating transfers	154,018,327	158,562,488
TRANSFERS TO STATE OF MISSOURI:		
Operating transfers	<u>(154,018,327)</u>	<u>(158,562,488)</u>
Excess of revenues over expenses and transfers	0	0
RETAINED EARNINGS AT BEGINNING OF YEAR	<u>0</u>	<u>0</u>
RETAINED EARNINGS AT END OF YEAR	<u>\$ 0</u>	<u>\$ 0</u>

The accompanying notes are an integral part of these financial statements.

MISSOURI STATE LOTTERY COMMISSION  
(A Component Unit of the State of Missouri)

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2000 AND 1999

	<u>2000</u>	<u>1999</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating income	\$ 152,338,677	\$ 155,555,712
Adjustments to reconcile operating income to net cash provided by operating activities-		
Depreciation and amortization	2,123,182	1,986,455
Change in assets and liabilities-		
Accounts receivable	8,895,018	(7,594,835)
Ticket inventories	202,789	86,572
Other assets	(167,188)	0
Accounts payable and other accrued liabilities	(825,921)	85,922
Accrued prize liabilities	(6,830,581)	8,782,286
Total adjustments	<u>3,397,299</u>	<u>3,346,400</u>
Net cash provided by operating activities	<u>155,735,976</u>	<u>158,902,112</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Operating transfers paid out	<u>(155,819,956)</u>	<u>(150,578,471)</u>
Net cash used for noncapital financing activities	<u>(155,819,956)</u>	<u>(150,578,471)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal payments - capital leases	(318,517)	(310,695)
Purchases of property and equipment	(2,251,094)	(2,195,270)
Proceeds from sale of assets	<u>142,034</u>	<u>478,172</u>
Net cash used for capital and related financing activities	<u>(2,427,577)</u>	<u>(2,027,793)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Change in restricted investments	2,674,572	(3,210,096)
Interest received	<u>1,563,766</u>	<u>1,518,063</u>
Net cash provided (used) by investing activities	<u>4,238,338</u>	<u>(1,692,033)</u>
Net increase in cash and cash equivalents	1,726,781	4,603,815
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>23,812,543</u>	<u>19,208,728</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 25,539,324</u>	<u>\$ 23,812,543</u>

NON-CASH TRANSACTIONS:

During Fiscal Year 1999 the Lottery entered into a leasing agreement which resulted in additions to fixed assets of \$996,480.  
During Fiscal Year 1999 the Lottery received fixed assets valued at \$1,107,200 from a vendor for liquidated damages.

The accompanying notes are an integral part of these financial statements.

MISSOURI STATE LOTTERY COMMISSION  
(A Component Unit of the State of Missouri)

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2000 AND 1999

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Missouri State Lottery Commission was created by the passage of a constitutional amendment on November 6, 1984 by the citizens of the State of Missouri. The Missouri State Lottery Commission is a Type III division assigned to the Missouri Department of Revenue as defined in Section 313.210 of the Missouri Revised Statutes. The Department of Revenue has no control, supervision, or authority over the actions or decisions of the Missouri State Lottery Commission. The Commission consists of five members appointed by the Governor with the advice and consent of the Senate. The day-to-day operations are handled by the executive director and administrative staff as designated by the Commission. In accordance with Governmental Accounting Standards Board Statement No. 14, the Missouri Lottery Commission, although a legal separate entity, is considered to be a component unit of the State of Missouri. This component unit provides services which exclusively, or almost exclusively, benefit the State of Missouri.

Basis of Presentation

The Lottery is accounted for as a proprietary-type enterprise fund. Enterprise funds are used to account for activities that are financed and operated in a manner similar to private business enterprises where the intent is that the costs of providing goods and services to the general public on a continuing basis are to be financed through user charges or where the periodic determination of net income is appropriate. In reporting its financial activities, the Lottery applies all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements, Financial Accounting Standards Board Statements and Interpretations, Accounting Principals Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Basis of Accounting

The financial statements of the Lottery have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Basis of accounting refers to when revenues, expenses and the related assets and liabilities are recognized in the accounts and reported in the financial statements. Measurement focus refers to what is being measured. The financial statements are prepared on the accrual basis of accounting and on an economic resources measurement focus in accordance with generally accepted accounting principles.

Revenue Recognition

Sales of on-line lottery tickets are generated by the semiweekly "LOTTO" and "Powerball" games, and the daily "Show-Me 5", "PICK 4", "PICK 3" and "Triple Play" games. Sales of lottery tickets are made through licensed retail sales outlets via on-line terminals maintained by the retailers. Ticket sales are recognized at the time the player purchases a ticket from the retailer.

Sales of instant lottery tickets are made to licensed retail sales outlets with the right of return. Ticket sales are recognized upon the sale of tickets to licensed retailers and are valued at the sale price to the player. Allowances have been established for estimated tickets to be returned by retailers of approximately \$513,000 and \$474,000 at June 30, 2000 and 1999, respectively.

### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

### Due to Lottery Proceeds Fund

All income before operating transfers of the Lottery, as described in the accompanying statements of revenues, expenses and retained earnings, accrues to the benefit of the State of Missouri. Operating transfers are made to the Lottery Proceeds Fund, which shall be appropriated by the State solely for the institutions of elementary, secondary and higher education.

Operating transfers are made monthly and are based on estimated income before operating transfers. A portion of the liability to the Lottery Proceeds Fund, equal to the net book value of capital additions after September 1, 1988, is deferred and is not subject to current operating transfers.

### Compensated Absences

Under the terms of the Lottery's personnel policy, employees are granted vacation and sick leave in varying amounts, based upon length of service. In the event of termination or separation, an employee is generally paid for accumulated vacation up to 240 hours if in service for less than ten years; 288 hours for service between ten and fifteen years; and 336 hours if service exceeds fifteen years. Accordingly, it is the Lottery's policy to record vacation pay as an expense as it is earned. The amount of earned but unused accumulated vacation is included as an accrued liability in the accompanying financial statements.

Retiring employees receive an additional month of credited service for every twenty-one days of accumulated sick leave on the date of termination. Credited service is used to calculate retirement benefits administered by the Missouri State Employees Retirement System. The amount of earned but unused sick leave has no financial effect on the Lottery.

### Risk Management

The Lottery's risk management activities for workers' compensation and unemployment are recorded in the Workers' Compensation Fund and the Employment Security Fund, funds of the State of Missouri. The Lottery reimburses these funds for actual disbursements made on the Lottery's account.

Employees are offered various health insurance coverage programs administered by the Missouri Consolidated Health Care Plan (MCHCP). The Lottery contributes a fixed monthly payment for each covered employee to MCHCP as appropriated by the General Assembly of the State of Missouri.

The Lottery's major assets including data processing equipment, buildings, and business interruption are insured by a third party carrier maintained by the Office of Risk Management.

There were no significant reductions in insurance coverage from the prior year. Insurance settlements did not exceed insurance coverage in the past three years.

### Budgetary Authority

The Lottery annually submits a request for appropriation through the budgetary process of the State of Missouri. All expenditures of the Lottery Commission are subject to the State of Missouri appropriation process.

### Reclassification

Certain prior year information was reclassified to conform to the current year presentation.

## 2. STATUTORY REQUIREMENTS:

Missouri statutes provide that a minimum of 45% of the money received from the sale of lottery tickets shall be allocated to prizes. The costs of operating the Lottery, including all commissions to retailers, promotional costs, and all other administrative expenditures, are appropriated by the General Assembly of the State of Missouri.

The Lottery receives certain services for no charge from other Missouri state government agencies. Investigative services are provided by the Missouri State Highway Patrol. The Office of Administration provides certain services to process expenditures and payroll for the Lottery.

## 3. CASH AND CASH EQUIVALENTS:

Cash, other than petty cash and imprest funds, is part of the common cash pool in the State Treasury. The State of Missouri invests such cash in excess of what is necessary to meet current obligations. The fair value in the common cash pool is the same as the value of the pool shares. At June 30, 2000 and 1999, the Lottery's share in the State's common cash pool was \$22,938,100 and \$19,490,220, respectively. The bank balances as of June 30, 2000 are fully pledged with collateral held in the name of the Lottery or held by the Lottery's agent.

Collateral is required by state statutes for demand deposits and certificates of deposit. The fair value of collateral must equal 100% of deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are governed by state statute and include U.S. government and U. S. agency bonds and securities, general obligation bonds of any of the fifty states, general obligation bonds of any Missouri county and certain cities and special districts, and revenue bonds of certain Missouri agencies. Written custodial agreements are required which provide, among other things, that the collateral be held separate from the assets of the custodial bank.

## 4. RESTRICTED INVESTMENTS:

The Missouri State Lottery Commission purchases zero coupon bonds to fund future grand prize winner prize claims. These investments are carried at cost in the amounts of \$104,846,803 and \$107,521,375 at June 30, 2000 and 1999, respectively, because they are not subject to trading but are intended to be held to maturity. The market value of these securities at June 30, 2000 and 1999, was approximately \$110,799,000 and \$114,994,000, respectively. The maturity value of securities held at June 30, 2000 and 1999, was \$163,927,000 and \$171,920,000, respectively.

## 5. ON-LINE TICKET SALES:

On-line ticket sales consist of the following:

	<u>2000</u>	<u>1999</u>
Powerball	\$ 99,966,448	\$ 132,599,484
PICK 3	42,368,038	45,622,562
LOTTO	35,292,475	24,981,515
Show-Me 5	21,923,806	23,537,442
PICK 4	10,549,806	8,759,037
Triple Play	<u>2,336,614</u>	<u>0</u>
	<u>\$ 212,437,187</u>	<u>\$ 235,500,040</u>



## 6. PROPERTY AND EQUIPMENT:

Property and equipment consists of the following:

	<u>2000</u>	<u>1999</u>
Land	\$ 352,973	\$ 315,052
Building	4,609,718	4,048,586
Computers and related software	3,934,442	3,802,239
Equipment	12,087,567	11,156,080
Autos	1,834,956	1,879,244
Other	<u>45,000</u>	<u>45,000</u>
	22,864,656	21,246,201
Less- Accumulated depreciation and amortization	<u>14,105,042</u>	<u>12,588,349</u>
	<u>\$ 8,759,614</u>	<u>\$ 8,657,852</u>

Depreciation and amortization expense for the years ended June 30, 2000 and 1999 were \$2,123,182 and \$1,986,455, respectively.

## 7. PENSION PLAN:

The Lottery participates in the Missouri State Employees' Retirement System (MOSERS) plan, a single employer, multiple agency, public employee defined benefit retirement plan covering all the employees of the State of Missouri. The plan is administered by the MOSERS Board of Trustees in accordance with Sections 104.010 and 104.312 to 104.800 of the Revised Statutes of Missouri. Substantially, all full-time employees of the Lottery are covered by the plan. MOSERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to: Missouri State Employees' Retirement System, 907 Wildwood Drive, P.O. Box 209, Jefferson City, Missouri 65102, or by calling (800) 827-1067.

The Plan provides retirement, death and disability benefits to its members. Benefits for state employees are fully vested after five years of credited service. Employees may retire on or after age 55 and receive reduced benefits (full benefits if they are at least age 50 and their combined age and service equal 80). The Plan cannot be terminated. The Lottery's full time employees do not contribute to the Plan. The State of Missouri is required to make all contributions at an actuarially determined rate. The current rate of contribution for retirement and long-term disability is 11.91% and 0.57% of total payroll, respectively.

For fiscal years ended June 30, 2000, 1999, and 1998, the annual pension cost was approximately \$717,000, \$707,000, and \$566,000, respectively, and was equal to 100% of the annual pension cost required to be contributed for those years.

## 8. LEASES:

The Lottery's regional facilities are held under operating lease agreements through June 30, 2000, with renewal options available for one to four additional one-year periods. Annual rent expense for these facilities totaled approximately \$318,000 and \$362,000 in fiscal 2000 and 1999, respectively.

The Lottery leases ticket vending machines under operating lease agreements through June 30, 2000, with options available for additional one-year periods. Annual lease expense for these machines totaled approximately \$935,000 and \$931,000 in fiscal 2000 and 1999, respectively.

### Capital Lease Obligation

The Lottery leases ticket validation equipment under a capital lease expiring in fiscal 2002. The lease has been capitalized at an interest rate of 6.168%. Amortization on the capitalized amount is included in depreciation expense.

Future minimum lease payments under the capital lease are as follows:

<u>Fiscal Year Ending</u>	<u>Amount</u>
June 30, 2001	\$ 351,000
June 30, 2002	<u>29,250</u>
	380,250
Less- Interest component	<u>12,982</u>
Present value of minimum lease payments	<u>\$ 367,268</u>

### 9. CONTRACTUAL ARRANGEMENTS:

The Lottery maintains contractual arrangements with providers of goods and services critical to the Lottery's operations. Significant contracts include an agreement with the provider of the Lottery's on-line game computer systems and agreements with producers of the Lottery's instant and pull-tab games tickets, among others. The contracts generally run for one year, with one-year renewals available at the option of the Lottery. The contracts require the Lottery to compensate vendors for goods and services that meet stated quality standards.

The Lottery is a member of the Multi-State Lottery Association (MUSL) which consists of 21 state and district lotteries (member lotteries) and operates the on-line Powerball game. Under separate agreements between MUSL and each lottery, the member lotteries sell tickets for the Powerball game and remit 50% of sales to prize winners or to MUSL for payment of prizes. Member lotteries also fund MUSL's operating expenses based on allocations by MUSL.

Grand prize winners of MUSL's games prior to November 5, 1997 receive prize payments annually over a 20-year period. Powerball grand prize winners after that date have the choice of receiving the prize in 25 annual installments or a portion of the prize in one lump-sum payment. Investment securities, with maturities that approximate all grand prize winner payments due to winners of MUSL games, are maintained by MUSL. The investments and related prize liabilities for winners of these games from the state of Missouri are excluded from the accompanying grand prize winners trust account statements. Future grand prize winner payments of MUSL games due to winners in Missouri are approximately \$225,802,000 as of June 30, 2000.

The Lottery has contributed to a prize reserve fund and set prize reserve fund, separately maintained by MUSL, to protect MUSL members in case of unforeseen liabilities and to pay certain prizes associated with Powerball, respectively. With certain restrictions, these fund balances are refundable to member lotteries upon termination of the member's agreement with MUSL or upon the disbanding of MUSL. At June 30, 2000, the Lottery's portion of the prize reserve fund and set prize reserve fund was approximately \$3,532,000 and \$1,615,000, respectively.

The Lottery has contributed to an account with MUSL which is used to pay certain operating expenses incurred by member lotteries for the Powerball game. With certain restrictions, the balances in this account are refundable to the member lotteries upon termination of the member's agreement with MUSL or upon the disbanding of MUSL. At June 30, 2000, the Lottery's portion of the balance of this account was approximately \$1,348,000.

#### 10. RESTRICTED AMOUNTS HELD ON BEHALF OF GRAND PRIZE WINNERS:

The Lottery has an implied contract to make future installment payments to grand prize winners, and as such, recognizes this as amounts held on behalf of grand prize winners. This is funded with the maturing U.S. Treasury zero coupon bonds that are restricted for this purpose. The balances of these maturities at June 30, 2000, are as follows:

<u>Fiscal Year Ending</u>	<u>Amount</u>
June 30, 2001	\$ 12,293,000
June 30, 2002	12,293,000
June 30, 2003	12,293,000
June 30, 2004	12,293,000
June 30, 2005	12,293,000
Thereafter	<u>102,462,000</u>
Total installment payments due	163,927,000
Less- Interest portion	<u>59,080,197</u>
	<u>\$ 104,846,803</u>

Prior to March 1990, the Lottery purchased annuity contracts from selected insurance companies to fund the "LOTTO" grand prize claims. Because it is the intent of the Lottery that the insurance companies make future installment payments directly to each prize winner, neither the value of the annuities nor the value of the related future payments are reflected in the accompanying financial statements. Future installment payments to be made to grand prize winners by these insurance companies totaled approximately \$49,793,000 at June 30, 2000.

During the 2000 Legislative Session, House Concurrent Resolution (HCR) 22 was passed. HCR 22 became effective on August 28, 2000. This resolution authorizes the Missouri Lottery to offer a one-time cash-out opportunity for winners of certain multi-year prizes won prior to October 22, 1998. The cash-out option for these previous winners remains in effect until December 31, 2000. As of the date of this report, the Missouri Lottery has sold investments with maturity values totaling \$14,458,000 to honor the cash-out offers.

#### 11. CONTINGENCIES:

The Lottery is aware of certain claims that may be made against it. The final outcome of any claim or lawsuit is not presently determinable. Management does not anticipate the resolution of these matters to have a material adverse effect on the financial condition of the Lottery.

STATISTICAL SECTION (UNAUDITED)

## Missouri Lottery Statistics

Information for the Missouri Lottery for the last ten fiscal years, 1991 through 2000, is presented in the accompanying schedules and charts. The Missouri Lottery was created in June 1985 and began selling tickets in January 1986.

The following information is presented in the accompanying schedules and charts:

**Revenue** – includes sales, interest income, retailer fees and other income amounts. Interest income does not reflect interest from investments for Lotto payments.

**Sales** – reflects the face value of lottery tickets. Powerball sales include Lotto\*America sales through April 1992. Pick 5 game sales include SuperCash sales from January 1992 through November 1994 and ShowMe 5 sales from November 1994 through June 2000.

**Retailer commission and incentives** – includes the base commission and cashing, promotional and program incentive payments.

**Prizes** – reflects the liability incurred for payments to winners.

**Ticket costs** – include the purchase cost of instant and pull-tab tickets and payments to the on-line games service provider.

**Administration** – includes all operating expenses not included in prizes, retailer commissions and incentives or ticket costs.

**Transfers to the State** – reflects the transfer of net income to the State of Missouri for fiscal years 1991 through 2000 plus an additional transfer of retained earnings in fiscal year 1991. Transfers were made to the General Revenue Fund for fiscal years 1991 through 1993 and to the Lottery Proceeds Fund for fiscal years 1994 through 2000. The Lottery Proceeds Fund is appropriated by the Missouri State General Assembly to the Department of Higher Education and the Department of Elementary and Secondary Education. Profits not yet transferred are shown on the balance sheet as a liability.

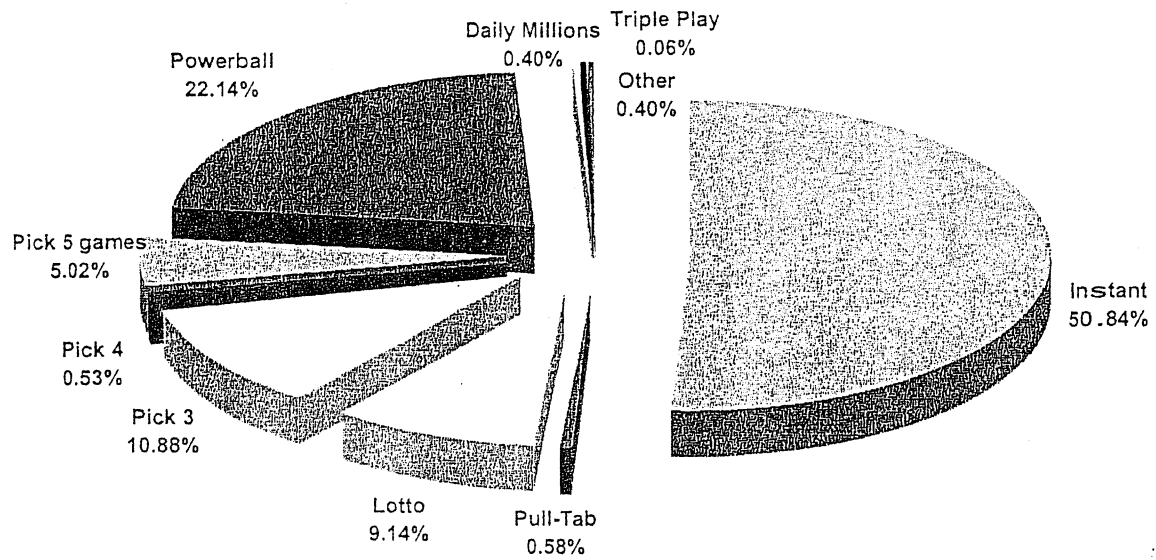
**Expenses and transfers** – includes prizes, retailer commissions and incentives, ticket costs and administration costs as described above as well as transfer made to the state.

Unless otherwise noted, the source for the data used to prepare the following schedules and charts is the Division of Finance and Administration of the Missouri Lottery.

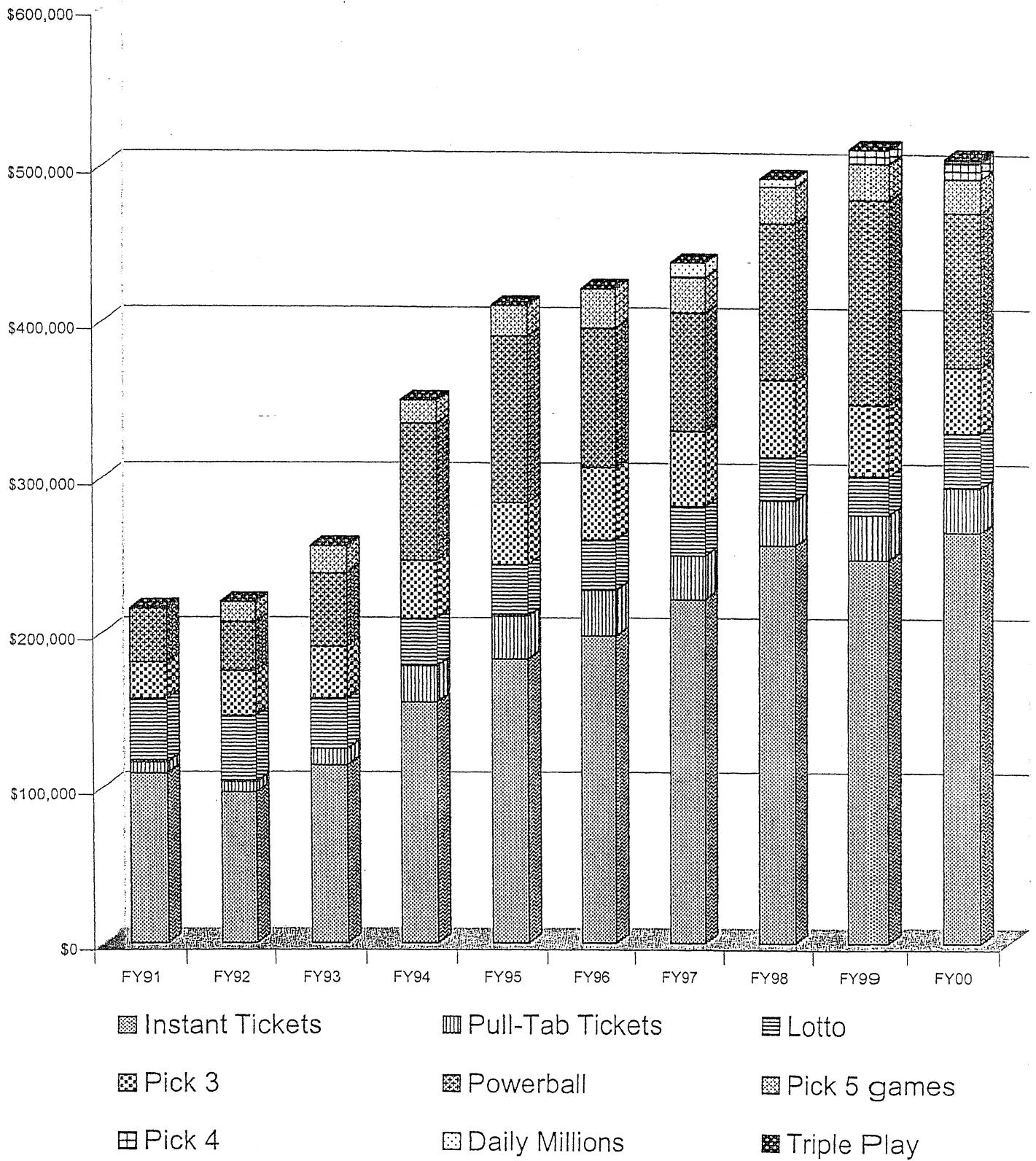
MISSOURI LOTTERY  
REVENUES  
FISCAL YEARS 1991 THROUGH 2000  
(000'S)

	FY91	FY92	FY93	FY94	FY95	FY96	FY97	FY98	FY99	FY00
<b>Sales</b>										
Instant Tickets	\$ 109,343	\$ 97,104	\$ 114,693	\$ 155,673	\$ 183,790	\$ 198,735	\$ 222,343	\$ 257,643	\$ 248,511	\$ 266,708
Pull-Tab Tickets	7,190	6,672	10,765	23,578	27,639	29,591	28,492	29,139	29,241	28,700
On-Line:										
Lotto	41,107	43,012	32,463	30,570	33,520	32,684	31,892	27,875	24,982	35,292
Pick 3	23,898	29,042	33,634	37,636	40,051	46,610	48,362	49,712	45,623	42,368
Powerball	34,702	31,475	47,406	88,046	106,848	89,377	76,146	101,083	132,599	99,966
Pick 5 games	-	13,054	17,714	15,016	19,817	25,534	22,784	23,667	23,537	21,924
Pick 4	-	-	-	-	-	-	-	-	8,759	10,550
Daily Millions	-	-	-	-	-	-	9,574	5,180	-	-
Triple Play	-	-	-	-	-	-	-	-	-	2,337
Total On-Line	99,707	116,583	131,217	171,268	200,236	194,205	188,758	207,517	235,500	212,437
Total Sales	216,240	220,359	256,675	350,519	411,665	422,531	439,593	494,299	513,252	507,845
<b>Other Revenues</b>										
Interest	1,494	839	495	665	937	1,124	1,045	946	1,518	1,564
Other	469	264	166	390	155	292	292	185	1,598	204
Total Other	1,963	1,103	661	1,055	1,092	1,416	1,337	1,131	3,116	1,768
Total Revenues	\$ 218,203	\$ 221,462	\$ 257,336	\$ 351,574	\$ 412,757	\$ 423,947	\$ 440,930	\$ 495,430	\$ 516,368	\$ 509,613

MISSOURI LOTTERY  
REVENUE DISTRIBUTION  
JULY 1990 THROUGH JUNE 2000

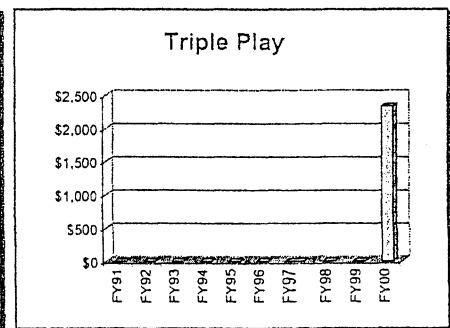
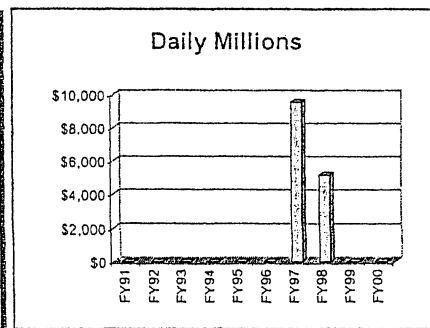
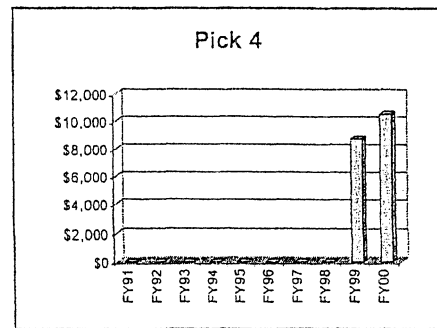
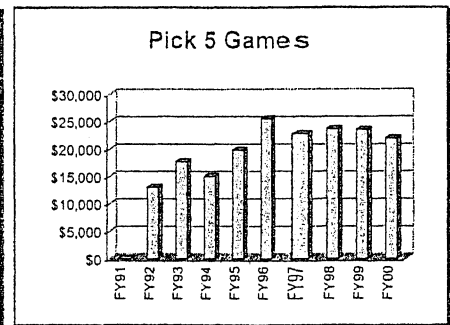
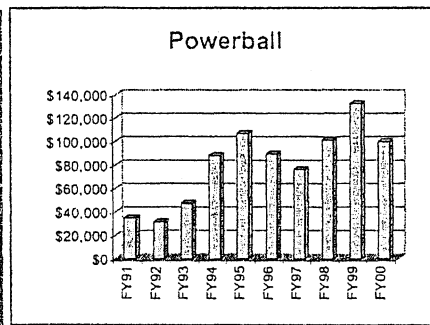
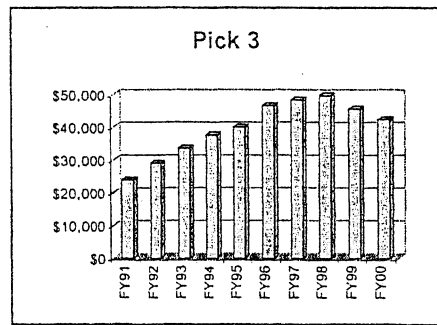
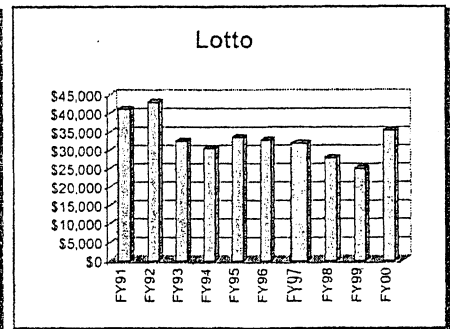
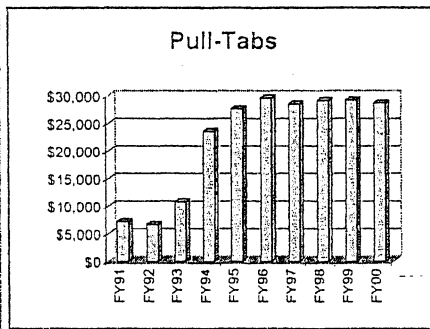
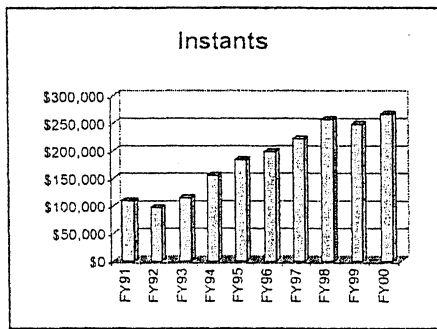


MISSOURI LOTTERY  
SALES BY PRODUCT  
FISCAL YEARS 1991 THROUGH 2000  
(000'S)





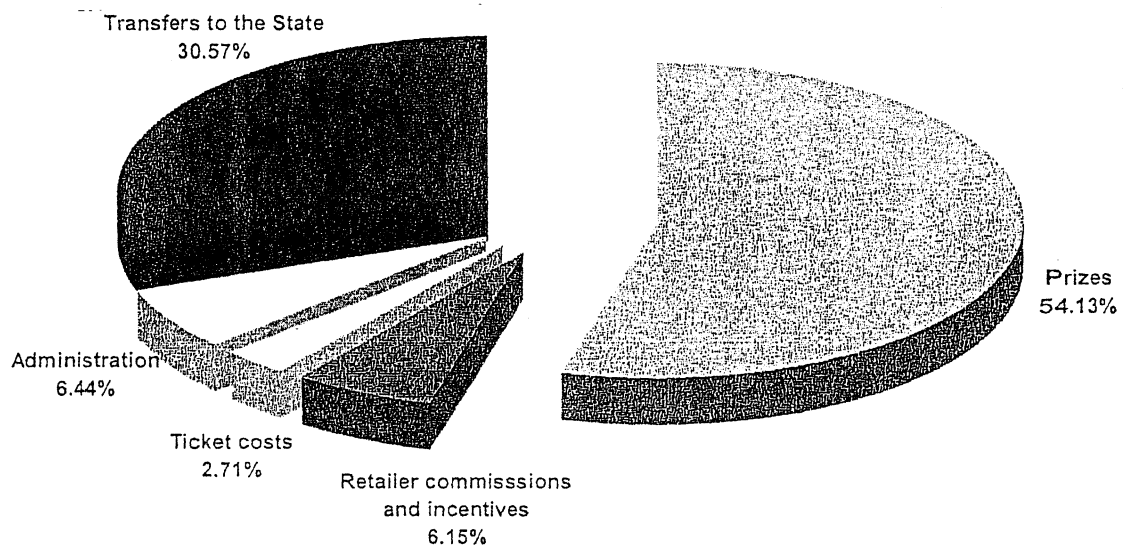
**MISSOURI LOTTERY**  
**SALES BY FISCAL YEAR BY PRODUCT LINE**  
**FISCAL YEARS 1991 THROUGH 2000**  
 (000'S)



MISSOURI LOTTERY  
EXPENSES AND TRANSFERS TO THE STATE  
FISCAL YEARS 1991 THROUGH 2000  
(000'S)

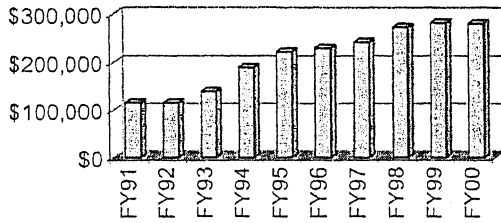
	FY91	FY92	FY93	FY94	FY95	FY96	FY97	FY98	FY99	FY00
<b>Expenses</b>										
Prizes	\$115,281	\$115,255	\$138,465	\$189,288	\$221,751	\$229,521	\$241,863	\$273,168	\$282,307	\$280,506
Retailer commissions and incentives	12,720	13,108	15,592	20,939	24,670	26,451	27,751	31,111	32,278	32,389
Ticket costs	4,671	7,530	7,994	10,426	12,339	12,557	10,805	12,458	13,196	12,580
Administration	18,975	19,514	18,690	22,252	24,575	27,360	27,847	29,168	30,024	30,120
<b>Total Expenses</b>	<u>151,647</u>	<u>155,407</u>	<u>180,741</u>	<u>242,905</u>	<u>283,335</u>	<u>295,889</u>	<u>308,266</u>	<u>345,905</u>	<u>357,805</u>	<u>355,595</u>
<b>Transfers to the State</b>										
Operating transfers	66,556	66,055	76,595	108,669	129,422	128,058	132,664	149,525	158,563	154,018
Legislative transfers	8,595	-	-	-	-	-	-	-	-	-
<b>Total transfers to the State</b>	<u>75,151</u>	<u>66,055</u>	<u>76,595</u>	<u>108,669</u>	<u>129,422</u>	<u>128,058</u>	<u>132,664</u>	<u>149,525</u>	<u>158,563</u>	<u>154,018</u>
<b>Total Expenses and Transfers</b>	<u>\$226,798</u>	<u>\$221,462</u>	<u>\$257,336</u>	<u>\$351,574</u>	<u>\$412,757</u>	<u>\$423,947</u>	<u>\$440,930</u>	<u>\$495,430</u>	<u>\$516,368</u>	<u>\$509,613</u>

MISSOURI LOTTERY  
EXPENSES AND TRANSFERS DISTRIBUTION  
JULY 1990 THROUGH JUNE 2000

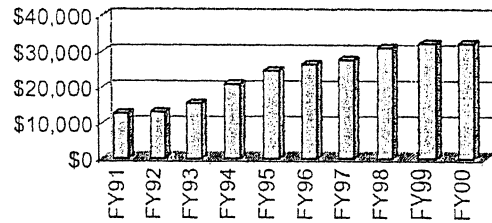


# MISSOURI LOTTERY EXPENSES AND TRANSFERS FISCAL YEARS 1991 THROUGH 2000 (000'S)

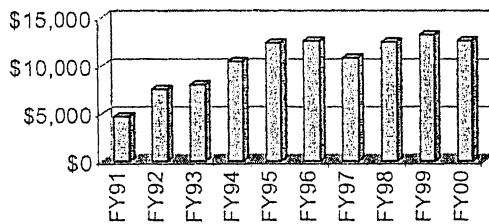
Prizes



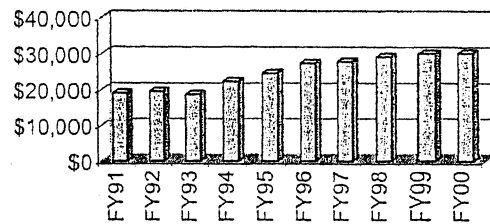
Retailer Commissions and Incentives



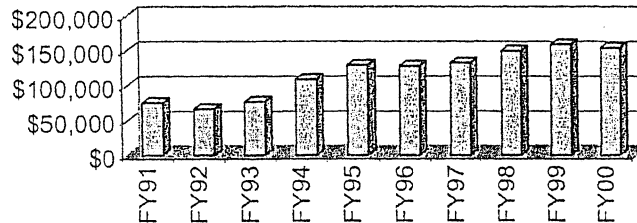
Ticket Costs



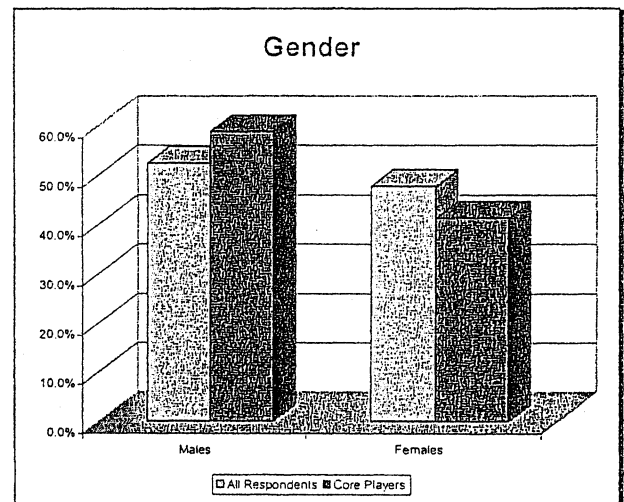
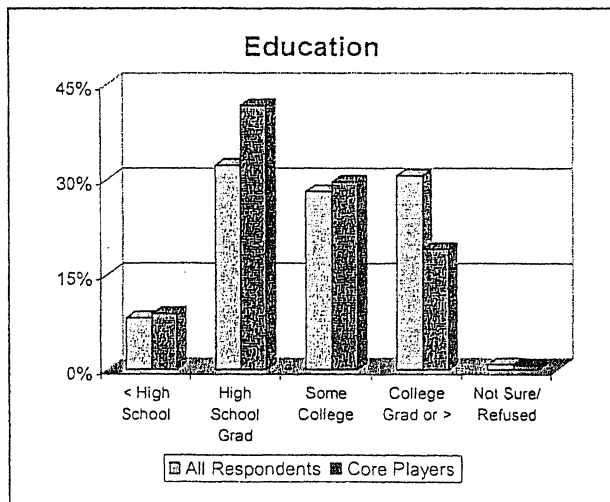
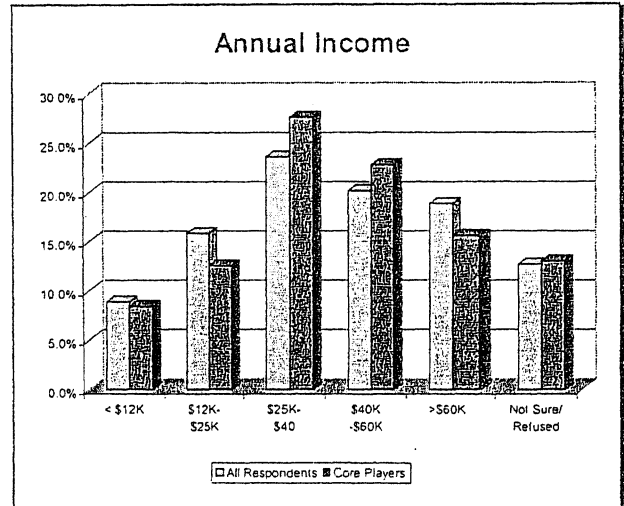
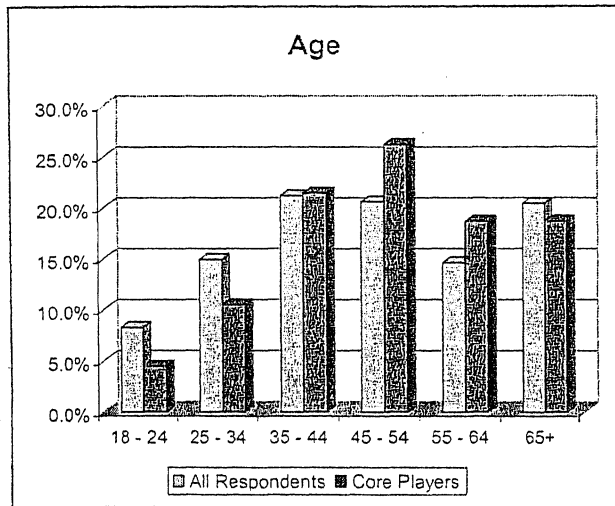
Administration



Transfers to the State



# MISSOURI LOTTERY DEMOGRAPHIC GROUP PARTICIPATION



Source: Missouri Lottery Track and Trend Report for FY2000

## SUPPLEMENTARY INFORMATION



Berberich Trahan & Co., P.A.

Certified Public Accountants

Topeka, KS 66612-1268

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& C

COCHRAN, HEAD & CO., P.C.

Certified Public Accountants

Liberty, MO 64068

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Missouri State Lottery Commission:

We have audited the financial statements of the Missouri State Lottery Commission as of and for the year ended June 30, 2000, and have issued our report thereon dated October 6, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Missouri State Lottery Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Missouri State Lottery Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected with in a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information of management and the Missouri State Lottery Commission and is not intended to be and should not be used by anyone other than those specified parties.

*Berberich Trahan & Co., P.A.*

*Cochran, Head & Co., P.C.*

October 6, 2000